

# EXHIBIT 12

October 19, 2004

**BY FACSIMILE (617.247.4125) AND HAND DELIVERY**

Kenneth M. Bello, Esq.  
Bello Black LLP  
535 Boylston Street  
Suite 1102  
Boston, MA 02116

**Re: Babcock Power Inc. Notes**

Dear Ken:

This letter is in response to your letter dated October 15, 2004 which you sent to me regarding my client, Babcock Power Inc. ("BPI"), regarding the November 29, 2002 \$1,900,000.00 and \$5,000,000.00 Promissory Notes ("Notes") issued by BPI in regard to the Stock Purchase and Non-Competition Agreements between Babcock Borsig Power GmbH and BPI. As I told you during our telephone conversation yesterday, we were puzzled as to why you sent your letter at this time, when the Notes had all along been a subject of the state court litigation which we initiated and now are a subject of the Counterclaims and Third-Party Complaint brought by BPI in the litigation pending before Judge Zobel in federal court. Nonetheless, in response to your October 15 letter to me, and in consultation with my client, BPI will take the following steps, while reserving all rights with respect to the principal and interest under the Notes:

BPI will elect its setoff rights under the Notes in the definition of Event of Default section and Schedule 3.06 of the Stock Purchase Agreement with regard to principal payments and interest that would otherwise be due in regard to the Notes. These setoff rights arise from the failure of Babcock Borsig Power GmbH to make the payments due to BPI for the insurance program that was provided to Ceramic Cooling Tower Corporation and Balcke Dürr Inc. as set forth in BPI's General Counsel's enclosed July 8, 2003 letter to Babcock Borsig AG's General Counsel. A summary of the calculations regarding this setoff and future payments are set forth on Schedules A&B, attached hereto. As a result of these setoffs, BPI will forward to you the remaining \$160,694 interest amount for the Notes by wire transfer by October 20, 2004. We intend to follow the wire transfer instructions in the Notes unless you provide other wire transfer instructions to me by 5 pm today. BPI will pay future interest and principal payments consistent

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with Schedules A&B. Accordingly, BPI will pay the principal payment of \$152,876.00 and the applicable interest by November 29, 2004. Since BPI will be paying within the five (5) day cure period after notice, as allowed under the Notes, it is not in default of the Notes payments; thus, the Notes principal amounts are not subject to acceleration and the Default Rate is not applicable.

Please contact me if you have any further questions regarding this matter.

Very truly yours,

  
Steven J. Comen

Enclosures (4)

# Babcock Power Inc.

July 8, 2003

Babcock Borsig Power GmbH  
c/o Babcock Borsig AG  
Duisburger Strasse 375  
46044 Oberhausen  
Germany

Att: General Counsel

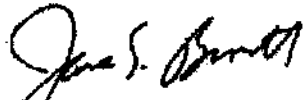
Dear Dr. Kränzlin:

Reference is made to the Stock Purchase Agreement between Babcock Borsig Power GmbH and Hudson Investment Group, Inc. ("Agreement"). Thermal Engineering International (USA) Inc.'s insurance program provided workers compensation and other insurance coverage for Ceramic Cooling Tower Corporation from October 1, 1999 to May 31, 2001 and for Balcke Durr Inc. (renamed BBF Inc.) from October 1, 1999 to May 31, 2001. At the time of the November 29, 2002 closing, both of these companies had already been divested by Babcock Borsig AG, and as part of the overall amounts due and from the related entities that were set forth on Schedule 3.06 (updated to November 25, 2002) for the Agreement, it was agreed that the amounts that would be due to Thermal Engineering International (USA) Inc. ("TEI") for this insurance program would be paid in normal course and also be subject to set off against the notes along with the other amounts referred in Section 8.06. At the time of the closing, this was done in order to conveniently handle these matters.

In addition, please note that the \$577,000 due under Footnote e has increased to \$1,018,939.00 and the \$90,000.00 under footnote d has increased to \$712,456.00. The schedules setting forth the calculation summaries of these amounts are set forth in the attached Exhibits A and B. These amounts are for the coverage provided in the above referenced time periods.

This letter is to advise you that these amounts are due. Please make payment within thirty (30) days. We will also advise you of any increase. If you have any questions regarding this letter, please contact the undersigned.

Very truly yours,



James S. Brantl  
Vice President General Counsel

JSB/lz

cc: Nixon Peabody  
Att: Brian Crush, Esq.

Babcock Power Inc.

5 Heponset Street  
Worcester, MA 01606

Tel: (508) 852-7100  
Fax: (508) 852-7548  
Web: [www.babcockpower.com](http://www.babcockpower.com)

**EXHIBIT A**

**Babcock Power Inc.  
Summary of Account Receivable Due From CCTC**

Description	BBPI	TEI	BPI	Total
KPMG Tax Preparation Cost	3,000			3,000
MCI WorldCom Monthly Charges		9,096		9,096
Monthly Life & Health Charges		736,513		736,513
Workers Compensation Monthly Costs		356,880		356,880
Price Waterhouse		1,859		1,859
Less Payments Received		(721,580)		(721,580)
April 30, 2002 AIG Paid Losses			90,538	90,538
May 31, 2002 AIG Paid Losses			4,972	4,972
Zurich Insurance Paid Losses			59,301	59,301
Zurich Insurance Paid Losses			35,706	35,706
<b>Balance at 11/25/02 Per Schedule 3.08 in SPA</b>	<b>3,000</b>	<b>382,768</b>	<b>190,517</b>	<b>576,285</b>

**Workers Compensation Claims for Period Prior to 10/01/01****AIG Policy Period: May 31, 2001 to October 1, 2001**

**A** Paid AIG Losses June 2002 through November 2002  
as of November 29, 2002 17,244

**B** Total Reserves for Remaining 2 Open Claims as of  
November 29, 2002 17,440

**C** Increase Reserve Adjustment for 1 Claim as of  
November 29, 2002 28,769

**Zurich Policy Period: April 1, 2000 to May 31, 2001**

**D** Zurich Paid Loss Deductibles as of November 29, 2002 7,171

**E** Zurich 1 Open Claim Reserve, as of November 29, 2002 36,113

**F** Zurich Retro Audit Adjustment for policy period April 2001  
to May 2001, as of November 29, 2002 12,773

**G** Zurich Retro Audit Adjustment for policy period April 2000  
to April 2001, as of November 29, 2002 61,141

**H** Zurich Retro Adjustment Paid Claims as of November 29, 2002 264,786

**Total Due BPI @ November 29, 2002** **1,011,722**

Interest from November 29, 2002 to June 30, 2003 @ Libor 1 Year (1.2%) 7,217

**Total Due BPI @ June 30, 2003** **1,018,939**

**EXHIBIT B**

**Babcock Power Inc.  
Summary of Account Receivable Due From BDI**

	<b>Description</b>	<b>Total</b>
	Zurich Insurance	73,494
	Zurich Insurance	6,542
	Surety Premiums	10,314
	<b>Balance at 11/25/02 per Schedule 3.08 in SPA</b>	<b><u>90,350</u></b>
	<b>Workers Compensation Claims for Period Prior to 10/01/01</b>	
	<b>AIG Policy Period: May 31, 2001 to October 1, 2001</b>	
<b>A</b>	<b>AIG Paid Losses June 2002 to November 2002 as of November 29, 2002</b>	<b>41,662</b>
<b>B</b>	<b>Total Reserves for remaining 2 open AIG Claims as of November 29, 2002</b>	<b>68,219</b>
<b>C</b>	<b>Increase in Open Claims Reserve Adjustment</b>	<b>7,195</b>
	<b>Zurich Policy Period: April 1, 2000 to May 31, 2001</b>	
<b>D</b>	<b>Zurich Paid Loss Deductibles as of November 29, 2002</b>	<b>349</b>
<b>E</b>	<b>Zurich Paid Loss Deductibles as of September 30, 2002</b>	<b>23,067</b>
<b>F</b>	<b>Zurich Retro Audit Adjustment for policy period April 2001 to May 2001, as of November 29, 2002</b>	<b>46,341</b>
<b>G</b>	<b>Zurich Retro Audit Adjustment for policy period April 2000 to April 2001, as of November 29, 2002</b>	<b>228,026</b>
<b>H</b>	<b>Zurich Retro Adjustment Paid Claims as of November 29, 2002</b>	<b>189,817</b>
<b>I</b>	<b>Reserves for 2 Open Zurich Claims, as of November 29, 2002</b>	<b>12,383</b>
	<b>Total Due BPI @ November 29, 2002</b>	<b><u>707,410</u></b>
	<b>Interest from November 29, 2002 to June 30, 2003 @ Libor 1 Year (1.2%)</b>	<b>5,046</b>
	<b>Total Due BPI @ June 30, 2003</b>	<b><u>712,456</u></b>

**BABCOCK POWER INC  
ACCUMULATED INTEREST****Accumulated interest from 11/29/02 - 10/31/04**

Interest owed on \$1.9M note	4,758
Interest owed on \$5.0M note	155,937
Total Interest	<u>160,694</u>
Plus remaining principal (Due 11/29)	152,876
Total principal and interest (Due 11/29)	<u>313,570</u>

## PROMISSORY NOTES SUMMARY

**Note amount** **1,900,000**

Right of offset for BDI & CCTA recievables (1,747,124)

Per J. Brantl letter to Dr. Kranzlin  
dated July 2, 2003

Balance at 11/29/02 152,876

## Interest

November	14	1.65375%
December	215	1.65375%
January 2003	187	1.44250%
February	173	1.47500%
March	177	1.36625%
April	168	1.34000%
May	171	1.31750%
June	153	1.22125%
July	156	1.20000%
August	166	1.27875%
September	186	1.48000%
October	170	1.30750%
November	183	1.46000%
December	193	1.48938%
January 2004	190	1.46000%
February	179	1.47625%
March	177	1.36375%
April	169	1.34125%
May	235	1.81000%
June	259	2.05750%
July	320	2.46625%
August	320	2.46250%
September	289	2.30000%
October	307	2.44375%

Total interest 4,758

Balance at 10/31/04 157,634



**BABCOCK POWER INC  
PROMISSORY NOTES SUMMARY**

<b>Note amount</b>	<b>5,000,000</b>	
<b>Interest</b>		
November	453	1.65375%
December	7,023	1.65375%
January 2003	6,126	1.44250%
February	5,658	1.47500%
March	5,802	1.36625%
April	5,507	1.34000%
May	5,595	1.31750%
June	5,019	1.22125%
July	5,096	1.20000%
August	5,430	1.27875%
September	6,082	1.48000%
October	5,552	1.30750%
November	6,000	1.46000%
December	6,325	1.48938%
January 2004	6,200	1.46000%
February	5,865	1.47625%
March	5,791	1.36375%
April	5,512	1.34125%
May	7,686	1.81000%
June	8,455	2.05750%
July	10,473	2.46625%
August	10,457	2.46250%
September	9,452	2.30000%
October	10,378	2.44375%
<b>Total Interest</b>	<u><u>155,937</u></u>	
<b>Balance at 10/31/04</b>	<u><u>5,155,937</u></u>	